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TO RUEHC/SECSTATE WASHDC IMMEDIATE 4083
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE IMMEDIATE

UNCLAS STOCKHOLM 000072

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TREASURY FOR (BILL LINDQUIST, VIMAL ATUKORALA)

E.O. 12958:N/A
TAGS: ECON EFIN SW
SUBJECT: SWEDISH GOVERNMENT ANNOUNCES ADDITIONAL MEASURES TO
COUNTERACT THE FINANCIAL CRISIS

REF: A) 08 STOCKHOLM 707, B) 08 STOCKHOLM 714 C) 08 STOCKHOLM 809

¶1. Summary: On February 3, the Government announced a U.S. $6 billion rescue package for the banking sector, utilizing the Stability Fund introduced in October of 2008. The package is designed to enable banks to increase lending to businesses and households. Sweden's major banks continue to struggle to ensure access to capital, and are increasingly vulnerable due to their loan exposure in the Baltics. The unemployment rate, currently at 6.5 percent, is rising rapidly and has reached levels not seen in many years. End Summary.

GOVERNMENT BANK RESCUE PACKAGE

¶2. On February 3, the Swedish Government announced a new rescue package for the banking sector worth about $6 billion. Finance Minister Anders Borg told the press an economic meltdown has now been temporarily prevented, but more long term measurements will be needed. The money from the $6 billion new rescue package will be used to strengthen banks' capital base to kick-start lending. While waiting for the rescue package, the Swedish Krona's falling value vis-a-vis the dollar and the Euro has helped exports, and interest rate cuts have somewhat cushioned the slowdown of the economy.

¶3. The rescue package will be financed through the early collection of fees going into the Stabilization Fund that was set up in October
¶2008. The Government also decided to make minor changes to the October legislation in order to facilitate and encourage more banks to join the State guarantee program (only one of the top four banks in Sweden, Swedbank, has joined to date). Banks which participate in the program will now also be able to deduct some of those fees against their fees to the Stabilization Fund.

¶4. The Government's new rescue package will help banks increase their capital by taking up to 70 percent of new share issuances in the case where banks wish to issue new shares to generate capital. The Government has stated, however, that it would prefer the private sector to be the major source of fresh bank capital. In return, banks participating in this program will be required to freeze executive and board salaries for two years, halt all bonuses and limit lay-offs.

SWEDISH BANK WOES TIED TO BALTIC LOANS

¶5. As a consequence of the financial turmoil, SEB, one of the largest Swedish banks, and the financial arm of the Wallenberg corporate empire, is now considering a reinforcement of capital by issuing new shares valued at $1.79 billion. SEB stock has fallen by almost 50 percent since the beginning of 2009, with market capitalization dropping from SEK 100 billion to SEK 24 billion in one year. SEB has suffered considerably from downturns in the economies of the Baltic States. SEB had issued around $12 billion in loans to the region and needs to cushion the uncertainty of the loans. It is unclear whether SEB is planning to turn to the Government for help, but before the new program was announced the bank claimed it would prefer to solve its own problems without

government interference.

GOVERNMENT EFFORTS TO HALT JOB LOSSES

¶6. January's layoff notices reached levels roughly four times higher than one year ago. In December of 2008 and January 2009, approximately 35,000 people were laid off, amounting to a total number of 209,504 by the end of January. This is 42,319 more than in January 2008. The unemployment rate was at 6.5 percent by the end of 2008, and it is expected to rise to a much as 10 percent in
¶2010.

¶7. In another attempt to boost the economy, the Government has put forward a new referral to be reviewed by the Swedish Council on Legislation that would give companies a grace period for paying taxes in certain circumstances. The proposal would allow employers to apply for up to a one-year delay in the payment of up to two months worth of their employees' withholding taxes and employers' fees in 2009 (ca $3,150 per employee). The provisions will be applied beginning February 2009 and are intended to help smaller companies overcome acute liquidity problems stemming from difficulties in securing financing from banks and other institutes. Companies would be required to pay an eight percent interest rate per year to take advantage of the program.

SILVERMAN